COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3636-02
Bill No.: Perfected HCS for HB 1644
Subject: Corporations; Revenue Dept.; Taxation and Revenue - Income
Type: Original
Date: May 1, 2008

Bill Summary: Would authorize a gradual reduction in the corporate income tax rate, phase in full deductibility of federal income taxes for individuals, and phase in full deductibility of corporate income taxes. Would also provide a motor fuel tax holiday during 2008 and eliminate state income taxes for filers with taxable income less than $1,000.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	(Less than $143,392,000)	($215,108,000)	($391,908,000)
Total Estimated Net Effect on General Revenue Fund	**(Less than $143,392,000)**	**($215,108,000)**	**($391,908,000)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Transportation Department *	$0	$0	$0
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

* Net of revenue reduction and reimbursement.
Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 13 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☐ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Local Government	**(Less than $71,000,000)**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Full deductibility of federal income tax for Missouri Corporations

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assumed a previous version of this proposal would not result in additional costs or savings to their organization.

The proposal would provide full deductibility of federal income taxes paid for corporations, beginning with tax year 2009. For tax year 2008, BAP estimates the liability not currently deducted to generate $116.7M in general and total state revenues, to be received in FY09. Assuming 5% growth, this proposal could reduce general and total state revenues by $122.5M in FY10, and $128.6M in FY11.

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** (EPARC) assumed a previous version of this proposal would reduce Missouri corporate income taxes by about $1 million based on 2002 data.

Officials from the **Department of Revenue** (DOR) assumed a previous version of this proposal would allow a corporation full deductibility of all federal income tax liability, on its Missouri return. This would decrease state revenues.

DOR officials also provided total net corporate income tax collections for FY 2007 of $553.9 million and for FY 2006 of $528.8 million.

DOR assumed that changes would be required to Missouri corporate income tax form and the COINS system, and that Corporate Tax would require one FTE Tax Processing Technician I for every 5,200 additional returns to be verified and every 2,080 pieces of additional correspondence generated.

DOR provided this estimate of the IT cost to implement the proposal.

The Office of Administration, Information Technology Services Division (ITSD/DOR) estimates the IT portion of this request could be implemented utilizing one existing CIT III for 1 month for modifications to the corporate income tax systems at a total cost of $4,186. ITSD/DOR assumes the proposal could be implemented with existing resources, however; if priorities shift, additional FTE/overtime would be needed.

ASSUMPTION (continued)

DOR provided an estimate of the administrative cost for this proposal including one additional employee and the related equipment and expenditures totaling $36,726 for FY 2009, $38,723 for FY 2010, and $39,884 for FY 2011. Officials from the Department of Revenue assumed a similar proposal in the previous session (HB 621 LR, 0426-01, 2007)this proposal would have no fiscal impact on their organization.

Oversight will use the prior year DOR response for this proposal.

Oversight notes that this proposal would increase the deductibility of federal income tax on state corporate income tax returns from the current 50% to 60% in 2009, 70% in 2010, 80% in 2011, 90% in 2012, and 100% for 2013 and subsequent years. Currently, corporations are allowed to deduct 50% of their federal income tax liability. The Tax Expenditure Report prepared by the State and Regional Fiscal Studies unit at the University of Missouri- Columbia indicates that tax expenditures related to the current deduction of federal income taxes was $60 million in 2006.

Oversight assumes the impact of this change would be proportional to the change in the percentage deductible, but at the corporate tax rate in effect at the time the deduction can be taken. Therefore, Oversight assumes that there would be ($60 million additional reduction in state tax revenues / 6.25% corporate tax rate) or $960 million additional federal tax deductions over five years, for $192 million additional deductions per year.

Fiscal Year	Additional Federal Tax Deduction	Corporate Tax Rate	Revenue Reduction
FY 10	$192 million	5.00%	$9.6 million
FY 11	$384 million	3.75%	$14.4 million
FY 12	$576 million	2.50%	$14.4 million
FY 13	$768 million	1.25%	$9.6 million
FY 14	$960 million	0.00%	$0

Full deductibility of federal tax on Missouri personal tax returns

Officials from the **University of Missouri, Economic Policy Analysis and Research Center** (EPARC) assumed a similar proposal would reduce 2009 individual income taxes from $4.399 billion to $4.272 billion, or $127 million. In 2010, net individual income taxes fall to $4.178 billion, which is a reduction of $221 million. In 2011, net individual income taxes due fall to $4.092 billion, which is $307 million less that what was received in 2008. In 2012, the net tax due falls to $4.012 billion, which is $387 million less than in 2008. In 2013, the net tax due falls to $3.942 billion, which is $457 million less than in 2008. Finally, in 2014, net tax due falls to $3.896 billion, which is $503 million less than in 2008.

Oversight will use this estimate of the fiscal impact of the proposal, and Oversight will assume that 2009 personal taxes would be collected in FY 2010.

Officials from the **Department of Revenue** (DOR) assumed a similar proposal would phase in full deductibility of federal income tax beginning 2009 and ending 2013.

* An individual taxpayer could deduct the greater of $5,000 or 20% of their federal tax liability for 2009.
* An individual taxpayer could deduct the greater of $5,000 or 40% of their federal tax liability for 2010.
* An individual taxpayer could deduct the greater of $5,000 or 60% of their federal tax liability for 2011.
* An individual taxpayer could deduct the greater of $5,000 or 80% of their federal tax liability for 2012.
* An individual taxpayer could deduct 100% of their federal tax liability for 2013.

DOR officials assumed the proposal would reduce the amount of tax due, and the amount of state revenues. The DOR estimate of administrative impact follows.

This proposal would require changes to the individual and corporate income tax forms and instructions, and the MINITS, COINS, and data entry system would need to be modified.

ASSUMPTION (continued)

Customer Services would require one FTE Tax Collections Technician I for every additional 15,000 contacts annually on the delinquent phone line; one FTE Tax Collections Technician I for every additional 24,000 contacts annually on the income tax phone line; and one FTE Tax Processing Technician I for every additional 4,800 contacts annually in the field offices. DOR anticipates most customers would contact the department via phone; and therefore, will only request additional staff for the larger field offices including Kansas City, St. Louis, and Springfield.

DOR officials provided this estimate of the IT cost to implement this proposal.

The Office of Administration, Information Technology Services Division, (ITSD/DOR) assumes the IT portion of this request could be implemented with existing resources; however, if priorities shift, additional FTE/overtime would be needed. ITSD/DOR estimates that implementing this legislation could be completed utilizing 1 existing CIT III for 1 month for modifications to MINITS and 1 existing CIT III for 1 month for modifications to Café at an estimated total cost of $8,372.

In summary, the DOR estimate of cost to implement the proposal including 5.0 additional FTE and the related equipment and expenditures totaled $184,010 for FY 2009, $194,087 for FY 2010, and $199,910 for FY 2011. Officials from the Department of Revenue assumed a similar proposal in the previous session (HB 621 LR, 0226-01, 2007)this proposal would have no fiscal impact on their organization.

Oversight will use the DOR response from the previous session.

Reduction in corporate income tax rate

Officials from the **Department of Revenue** (DOR) assume this proposal would have no fiscal impact on their organization. DOR officials provided this estimate of the IT cost to implement this proposal.

The Office of Administration, Information Technology Services Division (ITSD/DOR) assumes the IT portion of this request could be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement this proposal. ITSD/DOR estimates that this legislation could be implemented utilizing 1 existing CIT III for 2 months for modifications to COINS at a total estimated cost of $8,372.

ASSUMPTION (continued)

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** (EPARC) assume this proposal would reduce the corporate income tax rate over the next five years. More specifically, for tax year 2009, the corporate tax rate would be 5%, down from the current 6.25% rate. The rate would gradually decline, dropping to 3.75% in 2010, to 2.5% in 2011, to 1.25% in 2012, and 0% in 2013.

EPARC officials stated that they have reliable information for 2002; the taxable corporate income total was $4.5 billion and total FY 2003 collections were $355.4 million. EPARC provided a chart and narrative for projected corporate income tax collections from 2009 through 2013.

Year	Tax Rate	Tax revenues	Revenue reduction
2008 (based on 2002)	6.25%	$355.4 million	$0
2009	5.00%	$226.2 million	$129.2 million
2010	3.75%	$169.7 million	$185.7 million
2011	2.50%	$113.1 million	$242.3 million
2012	1.25%	$56.6 million	$298.8 million
2013	0.00%	$0	$355.4 million

ASSUMPTION (continued)

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume this proposal would not result in additional costs or savings to their organization.

BAP officials stated that this proposal would phase out the corporate income tax in Missouri, beginning in FY10. The proposed tax rates, and estimated losses to general and total state revenues, are presented below.

Fiscal Year	Corporate Tax Rate	Projected Net Collections (millions)	Revenue Reduction (millions)
FY 09	6.25%	$390	$0
FY 10	5.00%	$312	$78
FY 11	3.75%	$234	$156
FY 12	2.50%	$156	$234
FY 13	1.25%	$78	$312
FY 14	0.00%	$0	$390

Oversight will use the BAP projection of corporate income tax revenue reduction for this fiscal note.

Elimination of Missouri income tax for persons with taxable income less than $1,000.

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume this provision would result in filers with less than $1,000 in taxable income owing no tax. This provision would reduce personal income tax and general revenue; however, BAP is not able to estimate the amount of tax reduction.

Officials from the **University of Missouri, Economic Policy Analysis and Research Center** (EPARC) provided an estimate of $508,000 in reduced personal income tax collections if this proposal was implemented.

ASSUMPTION (continued)

Officials from the **Department of Revenue** did not respond to our request for information.

Oversight will assume that the Department of Revenue could implement this provision with existing resources.

Motor fuel tax holiday for 2008

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume this provision would eliminate the motor fuel tax between May 24th 2008, and September 2, 2008, with the General Revenue Fund to reimburse losses. Gross motor fuel taxes totaled $744.2 million in FY07. This provision would eliminate the fuel tax for 102 days, or 27.9% of the year. Therefore, BAP assumes that motor fuel tax collections could be reduced $221 million. Because these are the busiest driving days of the year, the actual cost could be more. Conversely, because the proposal is limited to "personal use" of "personal vehicles", and taxpayers would have to file a claim with the DOR, the actual impact is probably less. BAP does not have information on commercial or personal motor fuel tax collections.

Oversight has calculated an estimate of the fiscal impact of this provision using Department of Revenue reports. Based on 2007 sales, the motor fuel taxes collected during the holiday could have been as much as $205 million; $144 million would have been distributed to the Department of Transportation, $30.5 million would have been distributed to counties, and $30.5 million would have been distributed to cities.

Oversight does not have information regarding commercial or personal use of motor fuels; therefore Oversight will indicate a revenue reduction of less than $144 million to the State Transportation fund, and a revenue reduction of less than $30.5 million to the Cities and to the Counties, respectively. These provisions require the revenue reduction to the State Transportation Fund to be reimbursed by appropriation; however no fund source is specified. Oversight assumes there would be an appropriation from the General Revenue Fund for this purpose. For the purposes of this fiscal note, Oversight will indicate all of these amounts in FY 2009.

Officials from the **Department of Revenue** did not respond to our request for information.

Oversight will indicate an Unknown cost in excess of $100,000 to the Department of Revenue for the administration of this proposal.

ASSUMPTION (continued)

Officials from the Office of the **Secretary of State** (SOS) did not respond to our request for information. In response to similar proposals, SOS provided the following response.

Many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than $2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Sales and use tax exemption for motor fuel.

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume this provision would exempt motor fuel from sales or use tax on during the motor fuel tax holiday. BAP officials stated that this provision would lower general and total state revenues, and local revenues. BAP defers to the Department of Revenue for an estimate of the fiscal impact. Oversight assumes this motor fuel would not be subject to state or local sales tax since it was purchased for motor fuel use.

FISCAL IMPACT - State Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE FUND			
Revenue reduction - additional federal tax deduction on corporate tax returns.	$0	($78,000,000)	($156,000,000)
Revenue reduction - tax rate reduction on corporate tax returns.	$0	($9,600,000)	($14,400,000)
Revenue reduction - additional federal tax deduction on personal tax returns	$0	($127,000,000)	($221,000,000)
Revenue Reduction - elimination of state income tax for low income filers.	($508,000)	($508,000)	($508,000)
Cost - Department of Revenue Motor fuel tax holiday	(More than $100,000)	$0	$0
Transfer - State Transportation Fund Reduced motor fuel tax collections	(Less than $144,000,000)	$0	$0
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**(Less than $143,392,000**	**($215,108,000)**	**($391,908,000)**
TRANSPORTATION DEPARTMENT FUND			
Transfer - General revenue Fund	Less than $144,000,000	$0	$0
Revenue reduction - Motor fuel tax holiday	(Less than $144,000,000)	$0	$0
ESTIMATED NET EFFECT ON TRANSPORTATION DEPARTMENT FUND	**$0**	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
LOCAL GOVERNMENTS			
Counties - Revenue reduction from motor fuel tax holiday	(Less than $30,500,000)	$0	$0
Cities - Revenue reduction from motor fuel tax holiday	(Less than $30,500,000)	$0	$0
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	**(Less than $71,000,000)**	**$0**	**$0**

FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to incorporated small businesses.

FISCAL DESCRIPTION

This proposal would authorize a gradual reduction in the corporate income tax rate, would phase in full deductibility of federal income taxes for individuals, and would phase in full deductibility of corporate income taxes. The proposal would also provide a motor fuel tax holiday during 2008 and eliminate state income taxes for filers with taxable income less than $1,000.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration
Division of Budget and Planning
Department of Revenue
University of Missouri
Economic and Policy Analysis Research Center

NOT RESPONDING

Office of the Secretary of State

Mickey Wilson

Mickey Wilson, CPA
Director
May 1, 2008